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## DIRECT AND INDIRECT TAXES IN ECONOMIC LITERATURE.

### I.

THE distinction between direct and indirect taxes seems to have originated in relatively modern times. In classical antiquity no trace of such a distinction can be discovered, while in mediæval and modern Europe the terms are first found in a work written during the last half of the sixteenth century.<sup>1</sup>

The Greeks, like all other peoples, had various words that meant impost or tax ; but no trace can be found of any usage that resembles our expressions direct and indirect taxes.<sup>2</sup> The most common word for a tax, *τέλος*, was used at Athens for all the ordinary imposts,<sup>3</sup> some of which we should call direct, such as the personal tax upon the *metics*, while others would now be styled indirect, as the customs and market duties. A second word, *φόρος*, denoted primarily tribute from subject states.<sup>4</sup> The Athenians generally would not use this word for their own taxes.<sup>5</sup> In place of this hated term they often used

<sup>1</sup> On the history of these terms see Roscher, *Finanzwissenschaft*, § 37, note 4 (Stuttgart, 1886); Neumann, *Die Steuer*, pp. 417 *et seq.* (Leipzig, 1887); also in *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft*, VI, 955 *et seq.*; *Handwörterbuch der Staatswissenschaften*, VI, 96 *et seq.* (Jena, 1890-95); Förstermann, *Die direkten und indirekten Steuern* (Nordhausen, 1868).

<sup>2</sup> Cf. Förstermann, pp. 1, 2.

<sup>3</sup> Gilbert, *Handbuch der griechischen Staatsalterthümer*, I, 331 (Leipzig, 1881), says: "Die Hauptquelle der ordentlichen direkten Einnahmen bildeten die *τέλη*, eine Bezeichnung, welche die Zölle und Steuern umfasst." Plato, *Laws*, viii, 11 [847], uses *τέλος* for export or import duties, as follows: *τέλος δὲ ἐν τῇ πόλει μηδὲνα μηδὲν τελεῖν μήτε εξαγομένων χρημάτων μήτε εισαγομένων*. Aristotle, *Politics*, v, 11, uses *ἡ εἰσφορά τῶν τελῶν* for taxes in general.

<sup>4</sup> Gilbert, I, 393, 394. See Thucydides, i, 96: *καὶ Ἑλληνοταμίαι τότε πρῶτον Ἀθηναῖοις κατέστη ἀρχή, οἱ ἐδέχοντο τὸν φόρον. οὕτω γὰρ ὠνομάσθη τῶν χρημάτων ἡ φορά*.

<sup>5</sup> Yet Demosthenes, *Against Aristogeiton*, i, 21 [776, 9]: *φέροντα τὴν τῆς σωτηρίας φορὰν πλῆρη τῇ πατρίδι*.

euphemistically the word *σύνταξις*.<sup>1</sup> But the common word for the extraordinary property tax at Athens was *εἰσφορά*.<sup>2</sup> This impost was levied reluctantly, and usually for war purposes solely. Thus it appears that the only distinction between these various words is that *τέλος* was the common word for the ordinary taxes, *φόρος* generally meant tribute and *εἰσφορά* denoted the extraordinary property tax.

In Roman usage the case is similar.<sup>3</sup> *Vectigal* was originally used to denote all dues and imposts gathered from lands or domains in the possession of the state: that is, tithes from cultivators of public lands, port dues, etc. Thus it was contrasted with *tributum civium Romanorum*, the property tax collected from the possessions of citizens.<sup>4</sup> Gradually the term *vectigal* broadened until it became the common word for a tax of any sort.<sup>5</sup> The *tributum civium Romanorum*, or *tributum*, was originally the extraordinary property tax levied upon Roman citizens.<sup>6</sup> Then in the provinces the *tributum soli*, or land tax, and *tributum capitis*, or poll tax, were imposed as the principal taxes.<sup>7</sup> When Diocletian extended the provincial *tributum* to the lands of Italy, *tributum* came to mean strictly the imperial land tax.<sup>8</sup> Yet the word was sometimes used for other taxes besides those enumerated above.<sup>9</sup> The absence of any single term for expressing the difference in the incidence of direct and indirect taxes is well shown in the familiar passage in which Tacitus describes the effects of the remission of the old tax,

<sup>1</sup> See Harpocration, *σύνταξις*. Also Demosthenes, On the Crown, 234 [305, 16 and 17]:  *χρημάτων δὲ σύνταξιν εἰς πέντε καὶ τετταράκοντα τάλαντα*. Cf. Demosthenes, On the Peace, 13 [60, 11].

<sup>2</sup> See Gilbert, I, 345 *et seq.* Thucydides, iii, 19, says: *αὐτοὶ ἐσενεγκόντες τότε πρῶτον εἰσφορὰν διακόσια τάλαντα*. See Xenophon, Oeconomicus, ii, 6.

<sup>3</sup> Cf. Förstemann, p. 2.

<sup>4</sup> Marquardt, Römische Staatsverwaltung, II, 155, 156 (Leipzig, 1876).

<sup>5</sup> Thus we may mention the tax on sales, *vectigal rerum venalium*. See Marquardt, II, 269. Cicero uses the term for the land tax. *De Lege Agraria*, ii, 21, 57: "*agro pergrande vectigal imponitur*"; also *Brutus*, 36, 136: "*agrum publicum vitiosa et inutili lege vectigali levavit*."

<sup>6</sup> Marquardt, II, 157. For original references see Livy, xxiii, 31, 1, and 48, 8.

<sup>7</sup> Marquardt, II, 178, 179, 191 *et seq.* <sup>8</sup> *Ibid.*, 217 *et seq.*

<sup>9</sup> Thus Pliny, Panegyricus, 37, says of the inheritance tax: "*vicesima reperta est, tributum tolerabile*."

formerly paid by the purchaser, of four per cent upon sales of slaves. Tacitus shows that the remission was merely nominal; since at that time the seller was taxed, and the tax formed part of the price which had to be paid by the buyer.<sup>1</sup>

In the literature of the Middle Ages we cannot expect to find contributions to the doctrine of taxation. For a large part of this period there was a dearth of writings upon economic subjects. Then the schoolmen began to discuss such matters as fair price and usury, but had very little to say upon financial subjects.<sup>2</sup> The few other writers of the thirteenth and fourteenth centuries whose works possess anything of financial interest merely touched upon questions of public expenditures, the management of domains, the farming of taxes and the like. In point of fact, financial problems were as yet seldom of sufficient importance to attract much attention from scholars.<sup>3</sup>

In the fifteenth and sixteenth centuries, in Italy, and especially at Florence, such writers as Ghetti, Carafa, Savonarola, Guicciardini, Matteo Palmieri and others discussed financial topics more thoroughly.<sup>4</sup> But it was in France that the germ of the distinction between direct and indirect taxes was first developed. Jean Bodin,<sup>5</sup> in 1579, used the words, "*payer les*

<sup>1</sup> Tacitus, Annals, 13, 31: "*Vectigal quoque quintae et vicesimae venalium mercipiorum remissum, specie magis quam vi, quia cum venditor pendere juberetur, in partem pretii emptoribus accrescebat.*"

<sup>2</sup> Upon the schoolmen in general, see Cossa, Introduction to the Study of Political Economy, pp. 138-148 (London, 1893); Roscher, Geschichte der Nationalökonomie in Deutschland, pp. 1-31 (München, 1874); Ricca-Salerno, Storia delle dottrine finanziarie in Italia, pp. 38 *et seq.* (Palermo, 1896). St. Thomas Aquinas may represent the views of the scholastics on taxes. See Baumann, Die Staatslehre des Thomas von Aquino, pp. 97-99 (Leipzig, 1873); Jourdain, Philosophie de Saint Thomas d'Aquin, I, 429, 430 (Paris 1858); Palgrave, Dictionary of Political Economy, I, 49 (London, 1894); Littlejohn, The Political Theory of the Schoolmen, pp. 184, 185 (New York, 1896); Brants, Esquisse des théories économiques professées par les écrivains des XIII<sup>me</sup> et XIV<sup>me</sup> siècles (Louvain, 1895).

<sup>3</sup> Cossa, pp. 148-150; Ricca-Salerno, pp. 44-57.

<sup>4</sup> Cossa, pp. 156-160; Ricca-Salerno, pp. 47-54, 57-82.

<sup>5</sup> Les six livres de la république, p. 930 (Paris, 1579): translated into German (Mümpelgart, 1592); into English by Richard Knolles (London, 1606); into Latin (1586), as well as into other languages. On the character and influence of

*tailles et autres imposts directement ou indirectement.*" It was, however, merely an incidental expression, applicable to nearly all taxes, which Bodin never thought of making the basis for a classification. This is apparent from his classification of public revenues, as follows: (1) from domains; (2) from confiscations; (3) from gifts; (4) from tributes; (5) from trade; (6) from tolls and customs, which he regards as paid by foreigners; (7) from taxes upon subjects. This seventh branch of revenue is again subdivided into: (1) extraordinary; (2) ordinary; (3) casual.<sup>1</sup> Although Bodin's work had a very great influence in Europe, his casual use of the phrase "to pay taxes directly or indirectly" made little or no impression upon subsequent writers, most of whom did not adopt it.

Giovanni Botero,<sup>2</sup> writing under the influence of Bodin's ideas, does not make use of this suggestion. He divides public revenues into extraordinary and ordinary. The former arise from escheats, fines, confiscations, *etc.*; while the latter are derived from the products of the soil or of human industry. These ordinary revenues may be either immediate or mediate, the first division including incomes derived from the lands of the prince, the second comprising incomes derived from subjects. Christoph Besold<sup>3</sup> favored what modern writers would call indirect taxes, holding that they are paid more easily than direct imposts; but he does not seem to utilize the suggestion of Bodin. The same is true of Antoine de Montchétien,<sup>4</sup> who, however, discussed taxation merely incidentally. But the case is different with a number of other writers. Keckerman,<sup>5</sup> in this work see H. Hallam, *Introduction to the Literature of Europe*, II, 204-230 (London, 1837). Roscher, Förstemann and Neumann have been unable to trace the expression further back than this work.

<sup>1</sup> See bk. vi, ch. ii. Cf. Hallam, *Literature of Europe*, II, 226, 227. Hallam is mistaken in thinking that Bodin grouped excises with customs, and included only modern "direct taxes" under the seventh head.

<sup>2</sup> *Della Ragione di stato* (Venice, 1589). Cf. Ricca-Salerno, pp. 133, 134.

<sup>3</sup> *Discursus de aerario politico* (Tübingen, 1620). Cf. Roscher, *Geschichte der Nationalökonomie in Deutschland*, pp. 195-205.

<sup>4</sup> *Traicté de l'économie politique* (1615). Edited by Funck-Brentano (Paris, 1889).

<sup>5</sup> *Systema disciplinae politicae* (1607). Cf. Roscher, *Finanzwissenschaft*, § 37, note 4.

1607, wrote that indirect taxes are those which a state receives through artifices that it tolerates — as, for instance, public lotteries. Such authors as Lather, Faust and Klock,<sup>1</sup> in whose work the influence of Bodin may be seen, speak of payments "*per obliquum et indirectum*." <sup>2</sup>

Yet it is certain that, until the time of the Physiocrats, these vague expressions suggested to no one a new basis for a scientific classification of taxes;<sup>3</sup> while some writers did not use them at all. Thus Pufendorff,<sup>4</sup> who discussed taxes and argued that such imposts as customs duties are paid more readily since they are concealed in the prices of commodities, gives us no classification, and does not use the terms directly and indirectly. On the other hand, Seckendorff<sup>5</sup> wrote:

... When taxes are not paid to the government immediately out of the purse of every subject, but a certain penny or share of the price is levied upon liquor, meat, salt, grain and similar objects of common use.

But such terms are not found in Broggia,<sup>6</sup> who formulated an elaborate plan for a system of taxes, composed of (1) a land tax, (2) a tax on manufactured articles and upon fixed incomes, (3) imposts upon internal consumption and

<sup>1</sup> Lather, *De censu, tractatus nomico-politicus* (Frankfurt, 1618); Faust, *Consilia pro aerario* (Frankfurt, 1641); Klock, *Tractatus nomico-politicus de contributionibus* (Nürnberg, 1634), *Tractatus de aerario* (Nürnberg, 1651). See Roscher, *Geschichte der Nationalökonomie in Deutschland*, pp. 165-167, 207-218.

<sup>2</sup> This statement is made upon the authority of Neumann, *Die Steuer*, p. 418. Of the works mentioned the writer has been able to secure only Klock's *Tractatus de contributionibus*.

<sup>3</sup> In Germany, at least, such a classification would have been hindered, at that time, by the fact that various terms were applied to the different kinds of taxes, and no single word was used comprehensively to denote all forms of public imposts. Up to the close of the eighteenth century the word "*Steuer*" meant what we would now call a direct tax. Cf. Neumann, pp. 419, 420; Förstemann, pp. 3, 4.

<sup>4</sup> *De jure naturae et gentium* (1672). Translated into English by B. Kennett (London, 1729). Bk. vii, ch. iv, § 7; bk. viii, ch. v, §§ 4-6. Cf. Roscher, *Geschichte der Nationalökonomie*, pp. 316-318.

<sup>5</sup> *Teutscher Fürstenstaat* (Frankfurt, 1656), part iii, ch. viii, § 3. Cf. Roscher, *Geschichte der Nationalökonomie*, p. 251.

<sup>6</sup> *Trattato dei tributi* (Naples, 1743). Contained in *Scrittori classici Italiani*, edited by Custodi, vol. iv (Milan, 1804). See chs. ii, iv.

(4) customs duties;<sup>1</sup> nor are they used by Pascoli and Bandini.<sup>2</sup> A similar expression,<sup>3</sup> however, occurs in the following passage from Montesquieu:<sup>4</sup> “L’impôt par tête est plus naturel à la servitude; l’impôt sur les marchandises est plus naturel à la liberté, parce qu’il se rapporte d’une manière moins directe à la personne.” But, as Förstemann<sup>5</sup> has noticed, this seems to refer rather to differences in the legal relations of the tax-payers to the state in the two cases.<sup>6</sup> In any event, no idea concerning the shifting of taxes influenced Montesquieu’s classification of imposts, which was: (1) taxes on persons; (2) taxes on land; (3) taxes on commodities.<sup>7</sup>

## II.

This brings us to the Physiocrats, who first formulated a scientific classification of taxes as direct and indirect, and gave these terms a definite place in economic terminology. The founder of the school, François Quesnay, developed the familiar Physiocratic doctrine of taxation in 1758. Holding that all imposts ultimately fall upon the “*produit net*” of the earth, he declared that taxes can be most cheaply and easily collected directly from the land. Therefore he called all taxes indirect except that upon land, and advocated “*l’impôt unique et direct*” upon the net product of the soil.<sup>8</sup> It is not necessary

<sup>1</sup> Cf. Ricca-Salerno, pp. 228–234.

<sup>2</sup> L. Pascoli, *Testamento politico* (Perugia, 1733). Cf. Ricca-Salerno, pp. 217–222. S. Bandini, *Discorso economico* (1737, published at Florence, 1775).

<sup>3</sup> Neumann, p. 419, quotes from Boisguillebert and Vauban such passages as “*passer immédiatement de la main du peuple en celle du roi*,” etc. See Boisguillebert, *Détail de la France* (1695); *Factum de la France* (1706). Edited by E. Daire (Paris, 1851), pp. 237, 238, 266. But these expressions seem to refer to the costs of collection, as is apparent from the expression used on p. 238.

<sup>4</sup> *L’esprit des lois* (Geneva, 1748), bk. xiii, ch. xiv.

<sup>5</sup> *Op. cit.*, p. 7.

<sup>6</sup> In the same chapter Montesquieu explains that taxes on commodities are advanced by the merchant but really paid by the purchaser. He does not use the words directly or indirectly in this connection.

<sup>7</sup> *L’esprit des lois*, bk. xiii, ch. vii.

<sup>8</sup> The works of Quesnay in question are: *Tableau économique* (1758); *Second problème économique* (1767). These are contained in E. Daire’s *Physiocrates*

to follow this distinction of direct and indirect taxes through the works of all of the Physiocrats.<sup>1</sup> Turgot, however, may be mentioned briefly. He differed in some points from the other members of the school, although he held to their central doctrines. His use of the distinction between direct and indirect taxes is not always uniform. Sometimes he says that all taxes fall directly or indirectly upon the proprietors of land, and seems to regard the land tax as the only direct tax.<sup>2</sup> But elsewhere he says that there are three possible forms of taxes: (1) direct upon land; (2) direct upon persons; (3) indirect upon consumption.<sup>3</sup> Here he seems to have in mind the idea, suggested by Bodin, that some taxes are paid immediately or directly, while others are paid by other persons than the one who first advances the tax. With this notion he combines the classification of taxes formulated by Montesquieu. But he proceeds to discuss direct taxes<sup>4</sup> at some length, and explains that taxes on persons, so far as they fall upon any kind of income except that derived from land, are really indirect imposts. Thus his position is not inconsistent with the doctrines of Quesnay.

Various circumstances contributed to stimulate the discussion, started by the Physiocrats, concerning the relative merits of direct and indirect taxation. In the Constituent Assembly such questions were debated, and Physiocratic ideas exercised a demonstrable influence, especially in the reform of the land tax.<sup>5</sup> In January, 1790, an *instruction*, issued by the Assembly, defined a direct tax as follows:

(Paris, 1846) and Oncken's *Œuvres de F. Quesnay* (Paris, 1888). The passages referred to may be found on pp. 61, 83, 127-143 of Daire's edition and on pp. 312, 332, 696-718 of Oncken's edition. Cf. Henry Higgs, *The Physiocrats*, pp. 43, 44 (London, 1897).

<sup>1</sup> The most important citations are: Mirabeau, *Théorie de l'impôt* (1760); Dupont de Nemours, *Origine et progrès d'une science nouvelle* (1767); Mercier de la Rivière, *L'ordre naturel et essentiel des sociétés politiques* (1767). See Daire's *Physiocrates*, pp. 351-358, 474-524.

<sup>2</sup> *Œuvres de Turgot*, I, 409, 416, edited by E. Daire (2d ed., Paris, 1844).

<sup>3</sup> *Ibid.*, I, 394.

<sup>4</sup> *Ibid.*, I, 396.

<sup>5</sup> See R. Stourm, *Les Finances de l'ancien régime et de la révolution*, I, 136-143, 295-302 (Paris, 1885).

Toute imposition foncière ou personnelle, c'est-à-dire assise directement sur les fonds de terre ou assise directement sur les personnes, qui se lève par les voies du cadastre ou des rôles de cotisations, et qui passe immédiatement du contribuable cotisé au percepteur. . . .<sup>1</sup>

This definition resembles the one formulated by Turgot, but contains an additional element — namely, the reference to the *cadastres*, or assessment rolls, by which direct taxes may be levied. This suggested an administrative basis for classifying direct and indirect taxes, which has been much favored by subsequent French economists and has become fixed in French public law.<sup>2</sup> The same idea was further developed in the *Code des Contributions* of 1811.<sup>3</sup> Direct taxes were there declared to be those raised “*par des rôles où les contribuables sont nominativement cotisés*”; while indirect were those collected “*en vertu des tarifs, sans dénomination de personnes.*” The terms introduced by the Physiocrats lived on after their doctrines of taxation had been rejected.

Of French writers on economic science, Canard<sup>4</sup> may have been the first to formulate a new basis for the distinction of direct and indirect taxes, after Physiocratic doctrines had failed to gain acceptance. He held a tax to be direct when it reached the sources of an individual's income, as the income from land or from industry; while taxes collected from consumers, or from merchandise on the way to consumers, were indirect. A few years later J. B. Say<sup>5</sup> made a similar distinction, defining direct taxes as those demanded from an individual's real or supposed income, while indirect are demanded on each act of consumption of certain specified objects. In 1808 Montyon<sup>6</sup>

<sup>1</sup> M. Block, *Dictionnaire de l'administration française*, p. 636 (2d ed., Paris, 1881).

<sup>2</sup> Cf. the present classification in “*L'instruction générale.*” Say, *Dictionnaire d'économie politique*, II, 25 (Paris, 1892).

<sup>3</sup> *Handwörterbuch der Staatswissenschaften*, VI, 97 (Jena, 1894); Neumann, p. 431.

<sup>4</sup> *Principes d'économie politique*, p. 154 (Paris, 1801).

<sup>5</sup> *Traité d'économie politique* (1803). 1st Amer. ed., II, 268 (Boston, 1821).

<sup>6</sup> J. B. R. A. Montyon, *Quelle influence ont les diverses espèces d'impôts?* (Paris, 1808). Contained in *Mélanges d'économie politique*, II, 365-496 (Paris, 1848).

offered a similar definition, and the phrases direct and indirect taxes may then be said to have found a place in French economic terminology.

Through the influence of the Physiocrats the distinction of direct and indirect taxes came into general use in Italy, England and Germany. It is found in the writings of the Italian economist, Gaetano Filangieri,<sup>1</sup> who accepted many of the Physiocratic doctrines. He formally classified taxes as direct and indirect, and favored the single tax. Yet the terms were not used by Beccaria,<sup>2</sup> who discussed taxation incidentally, or by Verri.<sup>3</sup> The last-named writer treated at length the shifting of taxation, holding that taxes tend to diffuse themselves among all citizens in proportion to consumption. Occasionally he speaks of taxes falling "immediately" upon subjects, but he does not classify taxes as direct and indirect. Giuseppe Palmieri,<sup>4</sup> however, borrowed these terms from the Physiocrats, although he did not accept their doctrine that the single tax on land was the only proper form of taxation. Galanti,<sup>5</sup> who preferred the land tax to other imposts, but not as the only form of taxation, used the distinction; and the same is true of Di Gennaro,<sup>6</sup> who accepted the entire doctrine of the Physiocrats on this subject. The distinction occurs also in a work published at Naples in 1792.<sup>7</sup> After this date the terms direct and indirect taxes may be regarded as well established in Italian economic literature,<sup>8</sup> although the general rejection of

<sup>1</sup> *Delle leggi politiche ed economiche* (1780). Reprinted in *Economisti classici*, edited by Custodi (Milan, 1804). See pp. 324-358.

<sup>2</sup> *Elementi di economia pubblica* (1769). Reprinted by Custodi (Milan, 1804). See I, 21, 22, 278, 279, 285.

<sup>3</sup> *Meditazioni sulla economia politica* (1771). Reprinted by Custodi (Milan, 1804). See chs. xxx, xxxi.

<sup>4</sup> *Riflessioni sulla pubblica felicità* (1788). Reprinted by Custodi (Milan, 1805). See I, 212, 213; II, 149, 150.

<sup>5</sup> *Discrizione dello stato antico ed attuale del Contado di Molise* (Naples, 1781). Quoted by Fornari, *Delle teorie economiche nelle provincie Napolitane*, p. 413 (Milan, 1888).

<sup>6</sup> *Piano per la riforma dei titoli della legislazione relativi al tributo* (Naples, 1792). Quoted by Fornari, *Delle teorie economiche*, p. 409.

<sup>7</sup> *Esame critico delle due anonime operette*. See Ricca-Salerno, p. 435.

<sup>8</sup> Thus they are used by Azzariti-Stella, in *De mali e rimedi politici* (Naples, 1806). See Fornari, *Delle teorie economiche*, p. 573.

the Physiocratic doctrines had left no scientific basis for such a distinction. In 1813 Cagnazzi, the popularizer of Smith and Say, classified taxes as direct and indirect, in a manner which suggests the definitions formulated by Canard and Say. He called those taxes direct which are levied in proportion to income, and fall directly upon some source of wealth, such as land and industry; while he considered indirect taxes to be those which are levied upon the circulation or consumption of wealth.<sup>1</sup>

In Germany, Quesnay had a number of followers who advocated his doctrine of taxation.<sup>2</sup> Naturally writers of such tendencies used the terms direct and indirect taxes. Schlettwein may be cited as one of these.<sup>3</sup> But some economists, who did not accept the tenets of the Physiocratic school, made no use of this distinction: Lith, von Thiele and Fischer are cases in point.<sup>4</sup> J. H. von Justi, in a work<sup>5</sup> written prior to the publication of Quesnay's *Tableau Économique*, spoke of taxes being paid "*mittelbarer Weise*," an expression which we have met in the works of earlier writers. Yet Justi never conceived of this as a basis for the classification of taxes. He applied the expression even to the shifting of the land tax, which he considered possible. In subsequent works<sup>6</sup> Justi refutes the theory of the single tax, and does not adopt the terminology of the Physiocrats; while he continues to classify taxes as (1) taxes on immovables, (2) taxes on persons, (3) taxes on business.

Other writers, however, adopted the language of the Physio-

<sup>1</sup> L. Cagnazzi, *Elementi di economia politica* (Naples, 1813). Cf. Ricca-Salerno, p. 462; Fornari, *Delle teorie economiche*, pp. 579, 580.

<sup>2</sup> On Physiocratic influence in Germany, see Roscher, *Geschichte der Nationalökonomie in Deutschland*, pp. 480-500; Higgs, *The Physiocrats*, ch. v; *Jahrbücher für Nationalökonomie und Statistik*, XIX, 1-63 (Jena, 1872).

<sup>3</sup> For a list of the works of Schlettwein, see *Handwörterbuch der Staatswissenschaften*, V, 576-578. In particular see Schlettwein's *Grundfeste der Staaten*, p. 615 (Giessen, 1778).

<sup>4</sup> J. W. Lith, *Abhandlung von denen Steuern* (Ulm, 1766); C. G. von Thiele, *Nachricht der märkischen Contributions- und Landessteuerverfassung* (2d ed., Halle, 1768); F. C. J. Fischer, *Lehrbegriff sämmtlicher Kameral- und Polizeirechte von Deutschland* (Frankfurt, 1784-86).

<sup>5</sup> *Staatswirtschaft* (1755); 2d ed. (Leipzig, 1758), II, 345-355.

<sup>6</sup> *Politische und Finanzschriften* (Kopenhagen und Leipzig, 1761); *System des Finanzwesens* (Halle, 1766).

crats, even when rejecting their doctrines. Thus Pfeiffer, who attacked Schlettwein as the representative of the French school, used such expressions as "*direkte Auflagen*," "*direkt und indirekt besteuert*," etc.<sup>1</sup> Sonnenfels, also, when rejecting the single tax and attacking the treatment accorded by the Physiocrats to indirect taxes, uses continually the expressions "*mittelbare Abgaben*," "*unmittelbare Gewerbesteuer*," etc.<sup>2</sup> With these German writers we may group Bielfeld, who incidentally uses the words direct and indirect when treating of taxes.<sup>3</sup> Finally, J. J. Moser wrote that a certain tax was paid "*per indirectum*,"<sup>4</sup> while J. G. Hunger contrasted direct taxes with taxes on trade and consumption.<sup>5</sup>

Such discussions served to fix the words direct and indirect taxation in German economic terminology. Beguelin employed these terms in 1797.<sup>6</sup> Borowski used them, but with reference to Physiocratic discussions.<sup>7</sup> They occur in Bosse's *Grundzüge der Finanzwissenschaft*, published in 1804.<sup>8</sup> Kröncke<sup>9</sup> discussed the various meanings of these terms. Schlözer used the words in a different sense. He divided taxes into "*mittelbare*" and "*unmittelbare*."<sup>10</sup> The former he defined as taxes that fall upon the productive forces, gross income or production. Indirect taxes, in this view, would be those that fall upon consumption. Schlözer was a thorough student of Adam Smith's writings, and was acquainted with the works of Canard.<sup>11</sup>

<sup>1</sup> J. F. von Pfeiffer, *Der Anti-physiokrat*, pp. 212, 360, 361 (Frankfurt, 1780).

<sup>2</sup> *Grundsätze der Polizei, Handlung, und Finanzwissenschaft* (1763); 3d ed. (Vienna, 1777), III, 269-272, 300-302, 309-311, 342, 343.

<sup>3</sup> Le B. de Bielfeld, *Institutions politiques* (La Haye, 1760). See part i, ch. xii.

<sup>4</sup> *Landeshoheit in Steuersachen* (Frankfurt und Leipzig, 1773), p. 686.

<sup>5</sup> Hunger wrote: "*Diese Handels- und Consumptionsabgaben waren bei Weitem nicht so drückend als jene direkten Steuern*."—*Kurze Geschichte der Abgaben*, ch. xi (Dresden, 1783). Cf. Neumann, p. 423.

<sup>6</sup> F. W. von Beguelin, *Historisch-Kritische Darstellung der Accise- und Zollverfassung* (Berlin, 1797).

<sup>7</sup> G. H. Borowski, *Abriss des praktischen Kameral- und Finanzwesens* (2d ed., Berlin, 1799). Quoted in Förstemann, p. 23.

<sup>8</sup> Cf. Neumann, p. 421, note.

<sup>9</sup> *Das Steuerwesen* (Darmstadt, 1804). Cf. Neumann, p. 424.

<sup>10</sup> C. von Schlözer, *Staatswirthschaft* (1805). Quoted by Neumann, p. 417.

<sup>11</sup> See Roscher, *Geschichte der Nationalökonomie in Deutschland*, pp. 795, 796.

This last circumstance suggests that Schlözer's distinction was based upon that formulated by the French writer. In 1808 Eschenmayer wrote that taxes may be divided into direct and indirect, according as they are raised mediately or immediately from the taxpayers.<sup>1</sup> Also Theodore Schmalz, "the last Physiocrat," insisted that the terms direct and indirect had no meaning, when applied to taxes, except in the Physiocratic sense.<sup>2</sup> In this year, finally, the words found their way into Prussian public law,<sup>3</sup> and their use in German economic literature may be regarded as established.

In England the terms direct and indirect taxes came into use at a late day, and gained acceptance but slowly. Bodin's *Six Books of the Republic*, with its allusion to taxes paid "directly or indirectly," was translated into English in 1606, and was read widely.<sup>4</sup> Montesquieu, who used a similar expression, was studied by such economists as Hume and Adam Smith. Yet the terms did not come into use from the influence of these French writers. German authors, moreover, were much less known in England, except as their works were accessible in Latin editions.<sup>5</sup> Probably the minor political writers and cameralists were never read. Pufendorff, who was well known through the Latin and English editions of his *Law of Nature and Nations*, does not use the terms direct and indirect. German influence may, therefore, safely be left out of our account.

In England discussions of the subject of taxation are old.<sup>6</sup> We may begin with Thomas Hobbes,<sup>7</sup> who treated of justice in

<sup>1</sup> D. H. Eschenmayer, *Vorschlag zu einem einfachen Steuer-Systeme*, p. 12 (Heidelberg, 1808).

<sup>2</sup> *Handbuch der Staatswirthschaft*, § 410 (Berlin, 1808). Cf. Cohn, *Finanzwissenschaft*, p. 441 (Stuttgart, 1889); Roscher, *Geschichte der Nationalökonomie*, pp. 498-500.

<sup>3</sup> See Förstemann, p. 8.

<sup>4</sup> English translation by Richard Knolles (London, 1606). Cf. Hallam, *Introduction to Literature of Europe*, II, 204, 205.

<sup>5</sup> This is well shown in Adam Smith's library, which contained works in Latin, Greek, Italian and French, but no German works, except in Latin editions. See J. Bonar, *Catalogue of the Library of Adam Smith*, pp. 57, 92, 102, 110 (London, 1894).

<sup>6</sup> See Ricca-Salerno, pp. 172-185.

<sup>7</sup> *De cive* (1642); *Leviathan* (1651). (English Works of Thomas Hobbes. Edited by W. Molesworth. London, 1839.) See II, 174; III, 333, 334; IV, 216, 217.

taxation, favoring taxes on expenditure, but did not attempt any classification of imposts or use the terms direct and indirect. Sir William Petty, also, favored taxes on consumption. Holding that a land tax could be shifted only in part upon consumers of raw produce, he desired an excise on all consumption.<sup>1</sup> While he does not classify taxes as direct and indirect, he speaks, in one of his works, of taxes paid "insensibly and indirectly."<sup>2</sup> This is apparently the only case in which any English writer, prior to the time of Adam Smith, used any such expression. Thomas Mun, who devoted one chapter of his principal work<sup>3</sup> to the subject of public revenues, does not classify taxes or use the words direct and indirect. John Locke discussed taxation incidentally. Holding that all taxes "for the most part terminate upon land," he says it is vain for the landowner to desire taxes laid upon commodities, because, "though he pays not this tax immediately out of his own purse," he will ultimately bear the burden of such excise taxes.<sup>4</sup> Charles D'Avenant, who accepted Locke's theory that all taxes are in the last resort a charge upon land, does not use the words direct and indirect.<sup>5</sup>

In the eighteenth century, discussions of the relative merits of a single land tax, a general excise system or a single excise upon houses, *etc.*, continued; while the bitter controversies over Walpole's excise scheme of 1733 gave the question great practical interest.<sup>6</sup> Prominent among the writers of this period

<sup>1</sup> *Treatise on Taxes and Contributions* (1662).

<sup>2</sup> *Verbum Sapienti*, Appendix to *Political Anatomy of Ireland* (London, 1691). The *Verbum Sapienti* was written in 1665. All editions have "insensibly and directly." Petty's manuscript shows this to be an error. For this fact I am indebted to Prof. C. H. Hull, who explains the matter in his forthcoming edition of the *Economic Works of Sir William Petty*.

<sup>3</sup> *England's Treasure by Forraign Trade* (1664). (Edited by W. J. Ashley. New York, 1895.) See ch. xvi.

<sup>4</sup> *Considerations of the Lowering of Interest and Raising the Value of Money* (1691). See *Works of John Locke*, V, 55 (11th ed., London, 1812).

<sup>5</sup> *Ways and Means of Supplying the War* (London, 1695); *Discourses on the Public Revenues and Trade of England* (London, 1698). See *Political and Commercial Works of Charles D'Avenant* (London, 1771).

<sup>6</sup> See Palgrave, *Dictionary of Political Economy*, I, 788, for Walpole's scheme. On the entire controversy see Ricca-Salerno, pp. 197-210; Seligman, *Shifting and Incidence of Taxation*, pp. 12-27 (Baltimore, 1892).

were Vanderlint, who, following Locke, favored a single tax upon land,<sup>1</sup> and Sir Matthew Decker,<sup>2</sup> who desired a single excise upon houses. But this controversy did not result in the development, in English economic literature, of the distinction between direct and indirect taxes.

The immediate predecessors of Adam Smith now claim attention. David Hume<sup>3</sup> classified taxes as (1) upon consumption, (2) upon possessions, (3) arbitrary imposts; and did not use the terms direct and indirect. Malachy Postlethwayt, in his *Dictionary of Commerce*,<sup>4</sup> merely echoed Hume, and made the same classification. In another work<sup>5</sup> he spoke of "our Taxes laid directly upon Trade, or in any other intermediate Shape." But this does not seem to be similar to the technical use of the terms direct and indirect. Moreover, Postlethwayt made no classification of taxes upon this basis. Sir James Steuart devoted two hundred pages of his *Principles of Political Economy*<sup>6</sup> to the subject of taxation. He offered the following classification: (1) taxes on alienation, or proportional taxes, as customs, excise and stamp duties; (2) taxes on possession, or arbitrary and cumulative taxes, as poll, window, land taxes, *etc.*; (3) personal taxes, or "those exacted in service," as the road tax and militia duty. Steuart says that proportional taxes form parts of the prices of commodities, and are paid by the buyer. Taxes of the second class are intended to affect possessors in such a way that the taxes cannot be shifted.<sup>7</sup> Here

<sup>1</sup> J. Vanderlint, *Money Answers all Things* (London, 1734). Cf. Seligman, *op. cit.*, p. 22.

<sup>2</sup> *Serious Considerations on the Several High Duties* (1743). Cf. Seligman, *op. cit.*, pp. 17, 18; Palgrave, *Dictionary of Political Economy*, I, 519. The writer has been unable to secure a copy of this work. Decker also wrote *Essay on the Cause of the Decline of the Foreign Trade* (1744). This is contained in McCulloch's *Select Collection of Scarce and Valuable Tracts on Commerce* (London, 1859). In this later publication the terms direct and indirect do not occur.

<sup>3</sup> *Essay on Taxes* (1752). See *Essays, Moral, Political, and Literary*, by David Hume, I, 358 (London, 1882).

<sup>4</sup> *Universal Dictionary of Trade and Commerce*, II, 785 (London, 1755).

<sup>5</sup> *Great Britain's True System*, p. 307 (London, 1757).

<sup>6</sup> *Inquiry into the Principles of Political Economy* (1767). Cf. *Works of Sir James Steuart* (London, 1805).

<sup>7</sup> *Ibid.*, IV, 173-175.

he touches upon the very circumstance that forms a basis for a formal distinction between direct and indirect taxes but does not use those terms. On the contrary, he uses the words directly and indirectly in a non-technical sense that is opposed to any such scientific distinction.<sup>1</sup> Finally, it should be noted that J. Cunningham, in the two works in which he discussed taxation, did not use the terms direct or indirect and did not classify taxes.<sup>2</sup>

To Adam Smith, or, more properly, to the influence of the Physiocrats upon Adam Smith, is due the use in England of the terms direct and indirect taxes. Although Smith was familiar with the works of Bodin and Montesquieu,<sup>3</sup> he had not, as late as 1763, adopted such expressions. In his lectures of that year he made the following classification: (1) taxes upon consumption; (2) taxes upon possessions, as land, stock, money.<sup>4</sup> Here the terms direct and indirect do not occur. In February, 1764, Smith started upon his journey to France, where he remained two years and a half. There he became acquainted with Turgot and other Physiocrats, and attended the meetings of the sect.<sup>5</sup> Although he rejected their doctrines of taxation, and could not have classified taxes as they did, he nevertheless retained the words direct and indirect taxes, using them in his most famous work. An examination of the passages in the *Wealth of Nations*, where these terms occur, leads to the following results:

(1) Smith did not formally classify taxes as direct and indirect. The classification adopted by him is: (a) taxes on rent; (b) taxes on profits; (c) taxes on wages; (d) taxes which fall indifferently upon all three kinds of revenues. In this last

<sup>1</sup> Inquiry into the Principles of Political Economy, IV, 318. Here Steuart speaks of the impossibility of the land tax being shifted "directly," and considers whether it may be shifted "indirectly."

<sup>2</sup> Essay on Trade and Commerce, Containing Observations on Taxes (London, 1770). This contains the substance of an earlier work on taxes.

<sup>3</sup> See Bonar, Catalogue of the Library of Adam Smith, pp. 14, 70. Bielfeld's Institutions politiques was also in Smith's library. See Catalogue, p. 13.

<sup>4</sup> Lectures on Justice, Police, Revenue, and Arms, p. 239. (Edited by E. Cannan. Oxford, 1896.)

<sup>5</sup> John Rae, Life of Adam Smith, pp. 174, 202, 215, 216 (London, 1895).

class he placed, first, capitation taxes and, second, taxes on expenditure.<sup>1</sup>

(2) The terms direct and indirect, as used by Smith, did not refer to the incidence of taxes. He applied the term direct to taxes upon the profits of stock and upon the wages of common labor, all of which, he held, are regularly shifted.<sup>2</sup>

(3) The distinction which Smith commonly had in mind seems to have been based upon the methods followed in the assessment of taxes. This will be evident from the following passages. He speaks of stock "taxed directly," "in proportion to the whole profit."<sup>3</sup> Again, he says that transfers of immovable property may be taxed directly, but that transfers of movables can be taxed only indirectly, either by stamp duties on legal instruments or by requiring a registration of such transactions and imposing duties upon registration.<sup>4</sup> In all these cases he considers taxes direct when they are assessed according to revenue or property. When Smith first uses the word indirect, he says: "The state, not knowing how to tax, directly and proportionably, the revenue of its subjects, endeavors to tax it indirectly by taxing their expense."<sup>5</sup> He therefore considers indirect taxes to be those which are assessed in proportion to expense. In accordance with this distinction, he speaks, in other places,<sup>6</sup> of direct taxes upon salaries of public officials; while he calls capitation taxes on "the lower ranks of people" direct taxes upon the wages of labor; and considers taxes upon interest and rent to be levied directly.

(4) But Smith suggested, in one passage,<sup>7</sup> another idea which was to be used by subsequent writers in defining direct and indirect taxes. He said that capitation taxes and taxes upon consumable commodities are imposts "which it is intended should fall indifferently upon every different species of revenue." The intention of the legislator was to play an important part in subsequent definitions.

<sup>1</sup> *Wealth of Nations*. Edited by J. E. T. Rogers, II, 413, 414 (2d ed., Oxford, 1880).

<sup>5</sup> *Ibid.*, II, 466.

<sup>2</sup> See *Ibid.*, II, 440, 441, 460, 463, 466.

<sup>3</sup> *Ibid.*, II, 440.

<sup>6</sup> *Ibid.*, II, 441, 442, 463, 466.

<sup>4</sup> *Ibid.*, II, 453.

<sup>7</sup> *Ibid.*, II, 463.

Even after these suggestions by Smith, the words direct and indirect taxes were slow in making their way into general use. Thomas Mortimer, who had published, in 1772, his *Elements of Commerce, Politics and Finance*, did not employ these terms in the second edition, which appeared in 1780. The same is true of Sinclair in the various editions of his work upon the *Public Revenue*.<sup>1</sup> The words do not occur in the *Enquiry into the Principles of Taxation*, published anonymously, at Dublin, in 1791, although the incidence of taxes upon consumption is here discussed at some length. There were at that time, moreover, no settled meanings for such words as duties, excises, *etc.* The law of 1799, establishing Pitt's income tax, is entitled an act "granting certain duties upon income."<sup>2</sup> Similar terms are used in subsequent income tax acts,<sup>3</sup> and in the *Annual Register* for 1803.<sup>4</sup>

The slowness of the process by which the distinction between direct and indirect taxes gained general acceptance is shown in the various editions of the *Encyclopædia Britannica*. The first edition, published at Edinburgh in 1771, contained merely a brief treatment of the subject of taxation. The second and third editions, published in 1778 and 1797, show no trace of the influence of Smith's views. But the fourth edition, published in 1810, contains an article, nearly twelve pages in length, by Hugh Murray. Taxes are classified as follows: (1) assessed taxes,<sup>5</sup> "those which the subject is required to pay directly into the hands of the sovereign or commonwealth," *e.g.* income, capitation and property taxes; (2) taxes upon commodities, which "are paid, in the first instance, not by the consumer, but by the producer, or importer," and "fall upon consumption."

In 1804 W. Frend<sup>6</sup> applied the term indirect taxation to customs and excise duties. Ten years later John Craig<sup>7</sup> form-

<sup>1</sup> J. Sinclair, *History of the Public Revenue* (Dublin, 1785; 3d ed., 1803).

<sup>2</sup> 39 George III, c. 13.

<sup>3</sup> 43 George III, c. 122.

<sup>4</sup> *Annual Register*, 1803, p. 633 (London, 1805).

<sup>5</sup> This term has no reference to the "assessed taxes" of the English tax acts. Murray considers the latter as merely one kind of the assessed taxes of his general classification.

<sup>6</sup> *Principles of Taxation*, p. 49 (London, 1804).

<sup>7</sup> *Elements of Political Science*, III, 12 (Edinburgh, 1814).

ally defined direct and indirect taxes in such a way as to suggest the influence of Murray's article in the *Encyclopædia*. Craig said that direct taxes are "paid without recourse on others"; while indirect taxes "affect the enjoyments of persons altogether different from those by whom the money is originally advanced." Yet Ricardo, writing in 1817, did not formally classify taxes as direct and indirect. Although he sometimes made use of these terms, it seems to be impossible to reconcile the various passages of Ricardo's writings in which such words occur with any one definition of direct and indirect taxes.<sup>1</sup> In 1821 James Mill<sup>2</sup> reverted to the usage of Adam Smith and spoke of "the direct mode of deriving a revenue" from rent, profits and wages, and of "the expedients . . . for deriving it from them indirectly." Thus Mill called taxes on rent, profits and wages direct; while he regarded taxes on commodities, *etc.*, as indirect. From that time we may regard the distinction of direct and indirect taxes as established in English usage.

### III.

Without further consideration of the chronological details of its development, we may proceed to classify and examine critically the different views advanced concerning this distinction between direct and indirect taxes. Förstemann and Neumann have recognized three classes of definitions, exclusive of the Physiocratic usage;<sup>3</sup> but it seems impossible to reduce the divisions to so small a number, if all shades of opinion are to be included. In the following pages no attention has been paid to the long obsolete Physiocratic discussion. The reader will notice, also, that the names of some writers appear in more than one of the groups. This is because some economists have expressed different opinions in their various works, or

<sup>1</sup> See Principles of Political Economy and Taxation (1817) in McCulloch's edition of Works of Ricardo (London, 1886). See pp. 93-95, 119, 123, 141, 142, 144, 145. For example, on p. 141 Ricardo says that a rich consumer would pay a tax directly if it "were laid on income, on wine or on any other luxury."

<sup>2</sup> Elements of Political Economy (1821). See p. 241 (2d ed., London, 1824).

<sup>3</sup> Förstemann, p. 9; Neumann, pp. 425, 426.

have attempted to base upon several characteristics their definitions of direct and indirect taxes.

(1) The first of our groups of definitions is the oldest and the most familiar of all. Direct taxes are said to be those which are collected, in the first instance, from the persons who are to bear them, while indirect taxes are those which are collected from persons who shift the burden upon others. This distinction is an elaboration of the idea contained in the old expression, "to pay taxes directly or indirectly," and was first developed by the Physiocrats into a scientific classification of taxes. When the doctrines of the French school were finally overthrown, the terms direct and indirect remained in use,<sup>1</sup> and were employed by writers who believed that other taxes besides the tax upon the income from land were finally borne by the payer upon whom they were first placed. With the further development of the theory of the shifting of taxation, the classification of taxes as direct and indirect, according to their final incidence, remained a favorite one with students of finance.<sup>2</sup>

Such a classification seems to be logically clear and consistent. Moreover, it is based upon a most important economic fact. If our actual taxes could be classified with certainty as

<sup>1</sup> In Germany, in 1808, Theodor Schmalz, "the last Physiocrat," insisted that these expressions had no meaning apart from the Physiocratic doctrine of taxation. — Quoted by Cohn, *Finanzwissenschaft*, p. 441.

<sup>2</sup> D. H. Eschenmayer, *Vorschlag zu einem einfachen Steuer-Systeme*, p. 12 (Heidelberg, 1808); B. F. B. Weber, *Lehrbuch der politischen Oekonomie*, II (Breslau, 1813), quoted by Förstemann, pp. 21, 22; J. Craig, *Elements of Political Science*, III, 12 (Edinburgh, 1814); L. H. von Jakob, *Staatsfinanzwissenschaft*, I, 420 (Halle, 1821); W. Phillips, *Manual of Political Economy*, p. 276 (Boston, 1828); J. Schön, *Grundsätze der Finanz*, p. 86 (Breslau, 1832); H. Passy, "Impôt," in *Dictionnaire de l'économie politique*, I, 901 (Paris, 1852); R. E. Thompson, *Social Science and National Economy*, pp. 193, 194 (Philadelphia, 1875); H. Fawcett, *Manual of Political Economy*, p. 547 (5th ed., London, 1876); J. E. T. Rogers, *Manual of Political Economy*, chs. xxi, xxii (Oxford, 1876); J. L. Laughlin, *Elements of Political Economy*, p. 273 (New York, 1887); K. Umpfenbach, *Lehrbuch der Finanzwissenschaft*, p. 195 (2d ed., Stuttgart, 1887); C. Gide, *Principles of Political Economy*, p. 563 (Amer. trans., Boston, 1892). M. H. Baudrillart, *Manuel d'économie politique*, p. 501 (4th ed., Paris, 1878), combines this classification, to some extent, with the administrative classification discussed in the next group. W. Roscher, *Finanzwissenschaft*, p. 155, is inclined to follow this definition.

direct and indirect, the definition would prove most useful. But, unfortunately, it was soon apparent that difficulties must arise at just this point. Von Jakob pointed out, in 1821, that a wine tax might be direct, if collected from the consumer, and indirect, if collected from tradesmen or producers. The same is true, of course, of import duties. When consumers import goods directly, without resorting to middlemen, customs duties may be collected from the persons who finally bear them. But, more than this, the facts of incidence are often uncertain or varying. A house tax is surely direct, if the owner is also the occupier; but it may be shifted from the owner upon a tenant, especially if it is an exclusive tax. Such considerations long ago made it apparent that many taxes could not with scientific accuracy be assigned a definite place, in a classification based upon the actual facts of incidence.

A realization of this difficulty led to a modification in this definition of direct and indirect taxes: the supposition or intention of the taxing authorities was substituted for the actual facts of incidence. John Stuart Mill may represent the advocates of such a modification. He wrote:

A direct tax is one which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. . . .

Such definitions as this have during the last forty years gained wide acceptance.<sup>1</sup>

<sup>1</sup> E. Baumstark, *Kameralistische Encyclopädie*, § 487 (Heidelberg, 1835); K. S. Zachariä, *Abhandlungen aus dem Gebiete der Staatswirthschaftslehre*, p. 29 (Heidelberg, 1835); J. S. Mill, *Principles of Political Economy*, bk. v, ch. iii, § 1 (London, 1848); K. H. Rau, *Grundsätze der Finanzwissenschaft*, I, 441, 442 (5th ed., Leipzig, 1864); C. J. Bergius, *Grundsätze der Finanzwissenschaft*, pp. 263, 264 (Berlin, 1865); A. Walker, *Science of Wealth*, p. 312 (Boston, 1866); F. Bowen, *American Political Economy*, p. 436 (New York, 1870); A. L. Perry, *Elements of Political Economy*, p. 585 (New York, 1878); P. Leroy-Beaulieu, *Traité de la science des finances*, I, 225, 226 (4th ed., Paris, 1888); H. Denis, *L'impôt*, pp. 136, 137 (Brussels, 1889); J. A. R. Helferich, in Schönberg's *Handbuch der politischen Oekonomie*, III, 155, 156 (3d ed., Tübingen, 1897); J. S. Nicholson, *Principles of Political Economy*, I, 214 (New York and London, 1893); K. T. Eheberg, *Finanzwissenschaft*, p. 150 (4th ed., Leipzig, 1895). Perhaps we should include

But this formulation of the distinction between direct and indirect taxes is open to criticism. It is urged correctly that the intention of the legislator is "too uncertain an element for the characterization of a scientific conception."<sup>1</sup> It is asked whether Congress intended to burden the producer or the consumer by the tax formerly imposed on bottles of patent medicine, and for whose benefit the tax was repealed. We must concede that the legislator often has considered not at all the incidence of taxes, but merely the easiest or quickest way of raising money. Moreover, it is certain that tax laws do not always operate in accordance with the expectations or intentions of the legislator. While Wagner<sup>2</sup> is right in claiming that the intention of the legislator has been an important element in shaping reforms in modern tax systems, it is true that the uncertainties of this classification are so great as to leave it no strict scientific validity.

This definition, accordingly, has been subjected to a second modification. Admitting that direct taxes are occasionally shifted from the people whom they are supposed to burden upon persons whom they are not assumed to reach, and conceding that our knowledge of the facts of incidence is sometimes insufficient to enable us to be certain that direct taxes will stay where they are first placed, it is claimed, nevertheless, that we may retain with advantage the distinction based upon the incidence of taxation. Thus Bastable writes :

Whether a duty is assessed directly on the ultimate bearer or is passed through various intermediaries before reaching him, may not be capable of being precisely determined in all cases. There are no hard and fast lines in fact, and the instances on the margin may be numerous, but if we take the terms, not as giving a complete classification of taxes, but as marking the presence or absence of a certain

here S. Newcomb, *Principles of Political Economy*, pp. 484, 485 (New York, 1885). J. Garnier, *Traité de finances*, pp. 47, 48 (4th ed., Paris, 1883), combines, in part, this distinction with the administrative classification mentioned in the second group.

<sup>1</sup> R. T. Ely, *Taxation in American States and Cities*, p. 67 (New York, 1888). See also Neumann, pp. 485 *et seq.*

<sup>2</sup> *Finanzwissenschaft*, II, 244, 245 (2d ed., Leipzig, 1890).

characteristic, they may be employed with advantage, but rather to suggest reasons for discrimination than to definitely settle results.<sup>1</sup>

This is to admit that actual imposts can not be fitted into our distinction with absolute scientific accuracy. But there may still remain a justification for using the terms in this sense, to denote large groups of taxes that possess normally, in a large majority of cases, the same important characteristics. No error or confusion can arise, if care is taken to note all possible exceptional cases. Wagner well says :

In the most important practical cases this is not disputed. Income taxes, property taxes, direct taxes on luxuries, many taxes on transactions and inheritance taxes are demanded and formulated because we believe that we can assume, as a rule, that they finally fall on the payer and therefore are direct. Customs duties and internal excise duties are demanded and formulated in a given manner because we presuppose that they do not finally fall upon the actual payer, except in so far as he is also the consumer, but are shifted by him . . . upon the consumer.<sup>2</sup>

(2) The second group of definitions may be designated the administrative classification. According to it, direct taxes are those levied at stated periods by means of assessment rolls of names ; while indirect are levied only under certain circumstances or situations, and by means of tariffs or schedules of charges.

The earliest suggestion of such a classification is probably found in an *instruction* issued by the French Constituent Assembly in January, 1790. This defined a direct tax as follows : "*Toute imposition . . . qui se lève par les voies du cadastre ou des rôles de cotisations.*"<sup>3</sup> This was practically repeated in the *Code des Contributions*<sup>4</sup> in 1811. French financial practice has retained a similar classification down to

<sup>1</sup> Bastable, *Public Finance*, p. 326 (2d. ed., London and New York, 1895). See also T. E. Cliffe Leslie, *Essay on Financial Reform*, Cobden Club Essays, Second Series, p. 188 (London, 1872).

<sup>2</sup> Wagner, *Finanzwissenschaft*, II, 244.

<sup>3</sup> *Handwörterbuch der Staatswissenschaften*, VI, 97.

<sup>4</sup> Neumann, p. 431.

the present day,<sup>1</sup> while German administrative terminology has sometimes been influenced by the same idea.<sup>2</sup> Among economists, a number of French and German writers have followed this distinction,<sup>3</sup> and in France it has been used rather more often than any other.

This distinction is primarily of administrative importance. Its usefulness for economic purposes has never been demonstrated, as Block and Courcelle-Seneuil have admitted. The mode of administration is clearly an external matter that has little or nothing to do with the intrinsic nature and economic effects of tax systems. We may therefore reject this distinction as useless for purposes of economic investigation.

Moreover, it can be shown that the administrative definition leads to a grouping of taxes that is positively harmful for economic purposes. On this basis, taxes upon successions and gifts must be classified, with customs and excise duties, as indirect taxes. This is actually done in the administrative nomenclature of Prussia, Bavaria and Baden.<sup>4</sup> Little reflection is necessary to show the unfortunate results that must arise from grouping together taxes which differ so diametrically in their purpose, as well as in their economic effects.

Again, it may be noted, certain taxes do not always accommodate themselves to the administrative classification. Von Hock<sup>5</sup>

<sup>1</sup> See M. Block, *Dictionnaire de l'administration française*, p. 1087 (2d ed., Paris, 1881); L. Say, *Dictionnaire d'économie politique*, II, 25 (Paris, 1891).

<sup>2</sup> Neumann, pp. 434-436; *Handwörterbuch der Staatswissenschaften*, VI, 97.

<sup>3</sup> L. F. Wiederhold, *Wissenschaft der indirekten Steuern* (Marburg, 1820), quoted by Neumann, p. 438; F. G. Schimmelpfennig, *Die preussischen direkten Steuern* (1831), quoted by Neumann, p. 439; F. J. Schmitthenner, *Grundlinien des allgemeinen Staatsrechtes* (Giessen, 1843, 1845), quoted by Neumann, p. 439; K. F. Dieterici, *Ergebnisse der Verwaltung* (1849), quoted by Neumann, p. 440; M. H. Baudrillart, *Manuel d'économie politique*, p. 501 (4th ed., Paris, 1878); E. de Parieu, *Traité des impôts*, I, 10 (Paris, 1866); J. G. Courcelle-Seneuil, *Traité d'économie politique*, I, 452 (2d ed., Paris, 1867); J. Garnier, *Traité de finances*, pp. 47, 48 (4th ed., Paris, 1883); M. Block, *Progrès de la science économique depuis Adam Smith*, p. 415 (Paris, 1890); P. Cauwès, *Cours d'économie politique*, IV, 293 (3d ed., Paris, 1893).

<sup>4</sup> See Wagner, in Schönberg's *Handbuch der politischen Oekonomie*, III, 169; Neumann, p. 435; Wagner, *Finanzwissenschaft*, II, 241.

<sup>5</sup> *Die öffentlichen Abgaben und Schulden*, p. 89 (Stuttgart, 1863). Wagner, *Finanzwissenschaft*, II, 241, 242, has presented other difficulties of a similar sort.

has urged that some duties on consumption, which according to this definition are indirect taxes, may be paid by composition, and may therefore become direct in the administrative sense. Such cases are exceptional, and it may be claimed that the definition need consider only the conditions that prevail in a majority of cases. This may be conceded, as it was in the first classification of direct and indirect taxes ; but it remains true that all actual taxes cannot be fitted into the administrative definition with perfect scientific accuracy.

A final point demands consideration. Baudrillart<sup>1</sup> and Garnier<sup>2</sup> have attempted to combine, in some measure, the administrative classification with the one based on the incidence of taxes. Such a procedure is manifestly impossible. Taxes upon inheritances or gifts are certainly direct, within the meaning of the first definition ; while they are surely indirect, according to the criteria established by the administrative classification. In the case of these taxes the two definitions do not correspond at all, and they should not be combined.

(3) The third classification relates to the nature of the objects taxed — of the things which are made the bases of assessments. A. de Foville has stated it as follows :

A direct tax reaches in the payer taxable elements which are of a durable, constant and continuous character, such as existence, possession or profession. To exist, to possess, to carry on trade or industry, these are permanent facts. . . . Indirect taxes do not reach qualities or possessions, but circumstances, particular or intermittent facts.<sup>3</sup>

In 1811 F. J. H. von Soden defined direct taxes as those which reach an object, and indirect as casual imposts which depend upon circumstances or events. In 1829 J. G. Hoffmann wrote that direct taxes reach something that is, while indirect reach something that happens. In Germany, Murhard and Neumann, and in France, Parieu, de Foville and Stourm, have favored similar definitions.<sup>4</sup>

<sup>1</sup> Manuel d'économie politique, p. 501.

<sup>2</sup> Traité de finances, pp. 47, 48.

<sup>3</sup> Quoted by R. Stourm, Systèmes généraux d'impôts, p. 281 (Paris, 1893).

<sup>4</sup> F. J. H. von Soden, Die Staatsfinanzwissenschaft, p. 283 (Leipzig, 1811); J. G. Hoffmann, in *Preussische Staatszeitung*, Nr. 304, 1829; also in Nachlass

This distinction seems logically clear and admissible. But it is based upon criteria which, when applied to the facts of economic life, enable us to distinguish, in most cases, differences in degree of permanence only, not differences in the nature of the objects taxed. For this reason the practical application of the definition is not so easy as it might appear at first thought. Thus, production is considered to be a permanent or continuous fact, when taxes are classified upon the basis of this distinction. But it seems clear that a man's general activities in consumption constitute a fact of equal permanence, and that a general excise on consumption must be a direct tax within the meaning of the definition. Again, the systematic importation of raw materials from a foreign country seems to be a permanent and continuous part of the conduct of many productive enterprises. Why, then, are we not obliged to classify customs duties upon such materials as direct? Are they not imposed upon elements that are as permanent or continuous as the products, or net produce, upon which product taxes (*Ertragssteuern*) are levied?

The writers who favor this distinction consider that the use of a person's property or faculties in economic production is a fact of a permanent nature, and call taxes direct when they are levied on income or business.<sup>1</sup> It would seem that all taxes levied on producers as such, or upon goods regularly turned out by producers, must be considered direct, if this definition is to be consistently applied. This would necessitate the classification of excise taxes as direct when they are levied upon producers, as is the case with duties on beer, spirits and tobacco in the United States.

The adoption of this definition has never led to results that can be considered important for the investigation of economic questions. Further than this, it seems obvious that a grouping of taxes according to the criteria here suggested leads to unusual

kleiner Schriften, pp. 461-471 (Berlin, 1847); K. Murhard, *Theorie und Politik der Besteuerung*, pp. 170-173 (Göttingen, 1834); E. de Parieu, *Traité des impôts*, I, 118 (2d ed., Paris, 1866); Neumann, ch. x; R. Stourm, in *Dictionnaire d'économie politique*, II, 26.

<sup>1</sup> See Neumann, pp. 426-446.

and even harmful consequences. By this method of classification we are compelled to call many customs and excise duties direct, while taxes upon inheritances and gifts must be considered indirect. Such a grouping under a common name of taxes whose economic effects are so diverse cannot conduce to scientific insight.

Some economists, as Stourm and Neumann, have sought to combine this third classification with the second, or administrative, definition of direct and indirect taxes. They hold that taxes on permanent facts are collected by means of periodical assessments and rolls of names, while taxes on intermittent facts are levied by tariffs of charges. This combination of the two definitions is inadmissible. Excise taxes levied upon producers, or upon commodities as they are produced, are imposed upon relatively stable and permanent facts, as has been shown. Such duties must be called direct, in the sense of the third definition. But in their collection tariffs of charges, not assessment rolls, may be employed ; so that they must be considered indirect in the administrative classification. The same is true of such customs duties as strike regular and continuous importations.

(4) According to a fourth definition, direct taxes fall upon possession and indirect reach consumption. This classification considers the objects upon which taxes are levied — that is, things possessed or things consumed — and does not refer to the sources of taxation. It has been adopted by a number of economists in various countries.<sup>1</sup>

<sup>1</sup> F. J. H. von Soden, *Die Nationalökonomie*, III, 155 (Leipzig, 1805-1808); F. C. Fulda, *Handbuch der Finanzwissenschaft*, § 154 (Tübingen, 1827); J. G. Hoffmann, *Lehre von den Steuern*, pp. 69-73 (Berlin, 1840); W. Roscher, *Grundriss der Staatswissenschaften*, p. 101 (1843); M. von Prittwitz, *Theorie der Steuern und Zölle*, p. 176 (Stuttgart, 1842); F. Wayland, *Elements of Political Economy*, p. 391 (4th ed., Boston, 1851); E. Levasseur, *Précis d'économie politique*, p. 345 (Paris, 1883). E. Peshine Smith implies a similar distinction in his *Manual of Political Economy*, p. 265 (Philadelphia, 1853). E. Sax, *Grundlegung der theoretischen Staatswirtschaft*, p. 544 (Vienna, 1887), is perhaps to be classified with this group of writers, in spite of the pains he has taken to make his ideas appear so involved as to differentiate him from other economists. Finally, P. Cauwès brings this distinction into his definition of direct and indirect taxes : see his *Cours d'économie politique*, IV, 293 (3d ed., Paris, 1893).

This distinction may be assailed upon logical grounds. Possession and consumption, things possessed and things consumed, are not logical opposites. Our possessions include both capital goods, used in the process of production, and durable consumption goods, such as dwelling houses, furniture, clothing, carriages, *etc.* These durable consumption goods are not to be distinguished from food or fuel, except in respect of the length of time required to destroy or consume the satisfactions which they can afford. No scientific distinction can be based upon the criteria offered by this definition.

The objection just raised is fatal to such a classification, but it may also be pointed out that the definition is not sufficiently inclusive. In this grouping poll taxes can find no place. They are imposed upon persons as persons, not upon either possession or consumption as such. They may be paid by sacrificing property or by retrenching in one's consumption, but not necessarily in either way. Moreover, this definition considers, not the source whence arise the resources for paying the tax, but merely the objects upon which imposts are levied. The same difficulty occurs with inheritance taxes, which fall not upon property as such, but upon particular transfers of property. Similarly, taxes on sales occasion trouble. They are imposed upon acts, not upon property or consumption as such.

Some of these difficulties have been met by changing slightly the basis of the definition. Thus Soden, Levasseur and Cauwès include persons with property as the objects upon which direct taxes fall. Such a procedure may provide a place for poll taxes, but it does not obviate the difficulties that arise from the fact that possession and consumption are not logically opposite terms. The same is true of Fulda's attempt to include income with possession as the basis of direct taxation.

Sometimes the word actions has been substituted for consumption, as in the cases of Soden, Hoffmann, Roscher, Prittwitz and Levasseur. Probably this has been done in order to make a place for taxes on sales, gifts, inheritances and various imposts on transactions. This change makes the definition more inclu-

sive, but does not remedy the original logical difficulty. As applied to consumption, actions cannot be the logical opposite of possessions. My actions in acquiring and using a dwelling house differ from my actions in acquiring and using fuel only in respect of the length of time over which the use may extend. However this definition may be amended, it seems absolutely untenable.

(5) The fifth group of distinctions is based upon the opposition between production and consumption. Taxes which reach production are held to be direct, and imposts upon consumption are called indirect. Such a definition was partially formulated by Schlözer, in 1805, and has been adopted by several later economists.<sup>1</sup>

This distinction seems to be founded upon ideas that are logical opposites, but it cannot be made inclusive of all taxes. Poll taxes do not fall primarily upon production or consumption. Taxes on inheritances and gifts cannot, by any use of these terms, be brought under such a classification. Other difficulties arise when it is attempted to classify certain important kinds of imposts. Taxes on property that is not used in production certainly fall upon consumption goods. Hence, upon this basis, indirect taxes must include taxes upon dwelling houses, furniture, *etc.* — a result that is highly unusual and unfortunate. Taxes upon transfers must cause further trouble. These may be collected either from producers or consumers. While they may ultimately tend to burden the consumer, this definition does not allow us to consider the facts of incidence and to classify such imposts as taxes on consumption. Again, it is impossible to determine where taxes on checks or bills of exchange should be placed. These may be paid by producers or consumers in the first instance, and we are not allowed to consider their final incidence. It is clear,

<sup>1</sup> C. von Schlözer, *Staatswirthschaft*, p. 167 (1805), quoted by Neumann, p. 417; J. B. Montyon, *Quelle influence ont les diverses espèces d'impôts?* (Paris, 1808), contained in *Mélanges d'économie politique*, II, 365-496 (Paris, 1848); J. F. E. Lotz, *Handbuch der Staatswirthschaftslehre*, III, 176 (Erlangen, 1821); T. C. Banfield, *The Organization of Industry*, p. 136 (London, 1848); P. De Luca, *La Scienza delle finanze* (Naples, 1858). See Ricca-Salerno, pp. 548, 549.

therefore, that the fifth definition offers no certain or useful classification of taxes.

(6) The sixth method of classification contrasts income and expenditure. It groups taxes that fall upon income under the head of direct taxes and applies the term indirect to imposts that fall upon consumption. This definition is found in the writings of Canard and Say, as well as in recent works upon finance.<sup>1</sup> This grouping of taxes is somewhat similar to that based upon the opposition between production and consumption; but it is more inclusive, since it makes a place for taxes on inheritances, gifts and all possible forms of acquisition. Perhaps even poll taxes may be considered as uniform taxes upon income. Moreover, this classification seems to be based upon criteria that are clearly logical opposites. Nevertheless, it is open to criticism in some directions.

First, it may be shown that some taxes fall, now upon income, now upon expenditure. Taxes upon checks and bills of exchange may certainly lead to such results. The same is true of many other taxes on transactions. Excise taxes, when collected from producers, fall primarily upon the acquisition of income. Such imposts may regularly be shifted upon consumers and may be called taxes on consumption. But this definition does not allow for the ultimate incidence of taxation; and, if this should be attempted, would lead to most singular consequences. Therefore, some excise taxes must be considered direct in this classification.

In the second place, the definition provides no satisfactory place for taxes on durable consumers' goods. If these are not

<sup>1</sup> N. F. Canard, *Principes d'économie politique*, p. 154 (Paris, 1801); J. B. Say, *Political Economy*, II, 268 (1st Amer. ed., Boston, 1821); L. Cagnazzi, *Elementi di economia politica* (Naples, 1813); see Ricca-Salerno, pp. 461, 462. C. A. von Malchus, *Handbuch der Finanzwissenschaft*, I, 168 (Stuttgart, 1830); F. Lieber, in *Encyclopædia Americana*, XII, 155 (Philadelphia, 1832); C. Rusconi, *Prolegomeni della economia politica* (Turin, 1852); see Ricca-Salerno, p. 538. Perhaps, also, we should place in this group of writers, J. Mill, *Elements of Political Economy*, p. 241 (2d ed., London, 1824); J. R. McCulloch, *The Principles of Taxation*, I (London, 1845). L. von Stein holds that direct taxes fall upon net income, while indirect are imposed upon expenditure. Then he adds, as a third kind of impost, the general income tax. — *Lehrbuch der Finanzwissenschaft*, II, 499 (5th ed., Leipzig, 1885).

a source of income, then imposts levied upon them must be considered as indirect; and thus taxes on houses and many other forms of property become indirect taxes—a result not contemplated or desired by the advocates of this definition. It may be argued, however, that such goods are a relatively permanent investment from which the owner draws part of his annual income, in the form of satisfactions derived from the use of such consumers' goods. But such a claim does not entirely remedy the difficulty. House taxes may be collected from occupiers in all cases, and many of the occupiers may be tenants. Such taxes, therefore, fall primarily upon the tenant's expenditure and must be considered indirect. In this case we are prevented by the definition from considering the question of final incidence; but, if this should be regarded, we know that house taxes often fall upon tenants—regularly so, in fact, if the taxes are exclusive and not parts of a general property tax. There seem to be sufficiently strong reasons, therefore, for rejecting as useless, if not misleading, this sixth definition of direct and indirect taxes.

(7) A seventh definition has been developed, perhaps out of ideas suggested by the last classification. It has been held that direct taxes reach ascertained ability to bear public burdens and therefore strike wealth in its immediate manifestations, while indirect taxes are based upon the mere presumption of such ability and touch wealth in its secondary manifestations. In the first case, the ability is ascertained directly; in the second case, indirectly and by inference from some external sign. Persons, property and income are considered the immediate manifestations of wealth, while transfers of property and acts of consumption are the mediate manifestations. Perhaps a suggestion of such a definition is found in the following words of Adam Smith: "The state, not knowing how to tax, directly and proportionably, the revenue of its subjects, endeavors to tax it indirectly by taxing their expense."<sup>1</sup> Possibly one of Say's works has influenced some-

<sup>1</sup> *Wealth of Nations* (Rogers's ed.), II, 466.

what the more recent writers who have developed this distinction.<sup>1</sup>

Such a definition seems logically clear and unassailable, but its scientific value must depend upon the ease with which actual taxes fit into the classification and upon the results obtained by a rigorous adherence to the criteria established for our guidance. Here objections arise at the very start. The various manifestations of wealth upon which taxes are assessed cannot be sharply divided into mediate and immediate. The possession of a funded income may be a more immediate manifestation of wealth than the purchase of common food and fuel, but in many instances the line cannot be so readily drawn.

Let us consider a few such cases. Is the possession of a dwelling house a more immediate manifestation of wealth than the purchase and use of such luxuries as velvets, diamonds or champagne? Is not such a transfer of property as is involved in inheritances or gifts an immediate manifestation of ability to pay taxes? Yet, in this definition, it is proposed to consider taxes on transfers as indirect. Is the ownership of property always a source of income and an immediate manifestation of ability? Clearly not, for men may be "land poor" and many investments may prove unproductive. In cases like these a property tax is levied upon the presumption that the possession of such property is a source of income. It seems impossible to call all possessions immediate manifestations of wealth or ability and to consider all transfers and consumption as mediate

<sup>1</sup> J. B. Say, *Cours complet d'économie politique*, III, 401 (ed. by H. Say, Paris, 1852); J. J. Clamageran, *Histoire de l'impôt en France*, I, xiv, xv (Paris, 1867); Förstemann, *op. cit.*, pp. 12, 13; K. Knies, *Lectures*, quoted by R. T. Ely, *Taxation in American States and Cities*, p. 67; L. Cossa, *Taxation*, p. 66 (Amer. ed., New York, 1888); A. Roncali, *Corso elementare*, pp. 238, 239 (Parma, 1887). A. Schäffle distinguishes between direct and indirect methods of reaching a person's ability to pay taxes. According to him, direct taxes are assessed according to the measure of a person's average or general ability—that is, the size of a person's income; while indirect taxes reach facts connected with the processes of consumption or acquisition that indicate special or individualized ability. It is hard to see how this definition differs materially from those included in this class. At any rate, Schäffle classifies actual taxes in the same manner as Cossa and the other economists of this seventh group, calling taxes on inheritances, gifts, *etc.*, indirect. See *Die Steuern*, I, 58-73 (Leipzig, 1895).

manifestations. Again, the advocates of this classification propose to consider the poll tax as direct, since they regard a person's existence as an immediate manifestation of ability. Here they do not adhere rigorously to the criteria established by their own definition. The uniform poll tax has been gradually discarded by civilized peoples, precisely because it does not regard differences in ability to bear public burdens. In its assessment the government does not consider manifestations of wealth, but proceeds on the assumption that the mere fact of existence implies ability to pay. Enough considerations have been adduced to show the impossibility of constructing a consistent and useful classification of taxes upon this basis.

(8) An eighth definition is based upon the old idea that imposts upon consumption are paid voluntarily, since they form part of the prices of commodities that citizens are free to purchase or to refrain from purchasing. Such a distinction between direct and indirect taxes was made as early as 1787.<sup>1</sup>

Criticisms of this distinction need be directed only at the alleged voluntary nature of indirect taxes, such as impost or excise duties and taxes upon transactions. Mill has shown that this notion is erroneous, and Leroy-Beaulieu has given it the *coup de grâce*.<sup>2</sup> Taxes on salt, sugar and staple articles of clothing cannot be altogether avoided by a retrenchment of one's consumption. In so far as the use of these articles is diminished, the imposition of the tax compels the citizen to sacrifice desired enjoyments. This is all that the payment of a direct tax necessitates, so that the position of the citizen is practically identical in both cases. The result is the same

<sup>1</sup> F. W. von Ulmenstein, *Von Steuern und Abgaben*, p. 161 (Erlangen, 1794); see Roscher, *Finanzwissenschaft*, p. 157; A. Ressi, *Dell' Economia della specie umana* (Pavia, 1820), quoted by Ricca-Salerno, p. 471; D. A. Wells, *Principles of Taxation*; see *Popular Science Monthly*, LI, 173, 174 (New York, 1897). Förstemann, p. 27, quotes Prussian decisions, of the year 1837, to the same effect. In 1787 the same idea was advanced by Hugh Williamson, who wrote: "The capitation tax and land tax, such as are usual among us, are inevitable and positive taxes: they are not to be averted. . . . But the excise is a negative or indirect tax."—*American Museum*, II, 122 (Philadelphia, 1787).

<sup>2</sup> *Principles of Political Economy*, bk. v, ch. vi, § 1; *Traité de la science des finances*, I, 279. Cf. Bastable, *Public Finance*, p. 330.

when taxes are levied solely upon so-called luxuries. Moreover, direct taxes can be avoided with equal readiness and in a similar manner. The citizen can live in a poor house located in an undesirable quarter, and can thereby avoid the direct tax levied upon the comfortable dwelling which he would otherwise have desired to occupy. He can cease to accumulate wealth, and may escape paying an income tax levied upon incomes that exceed five hundred dollars. Leroy-Beaulieu seems to be entirely justified in remarking : "*Mais, d'abord, c'est faire une plaisanterie que de dire que les impôts indirects soient volontaires.*"

(9) A ninth distinct group may be recognized, although it is of slight historical and even less scientific importance. Direct taxes are defined as those imposts which are demanded from citizens in definite amounts and indirect taxes as those paid according to special circumstances, without a determination of the exact sums due from each individual.<sup>1</sup> This definition has no significance for scientific purposes.

(10) Finally, it may be noted that our nine groups of definitions do not include all the economists who have employed this distinction. Thus, A. Marescotti<sup>2</sup> has defined direct taxes as imposts which fall upon immovables and indirect as imposts that reach movables — a definition which has no possible economic value and must lead to a most singular grouping of taxes.

Prof. R. T. Ely has retained the distinction, while he has appreciated the shortcomings of the various methods of formulating it. Without attempting to find a new scientific basis for the classification, he has called taxes direct when they reach real property or income and indirect when they are laid upon articles of drink, food and clothing. Around these principal

<sup>1</sup> G. H. Borowski combines this element with others in his definition of direct and indirect taxes. See *Abriss des praktischen Kameral- und Finanzwesens* (Berlin, 1799), quoted by Förstemann, p. 23. A. H. L. Heeren formulated the distinction more clearly in his *Ideen über die Politik*, I, 227 (2d ed., Göttingen, 1804), quoted by Förstemann, p. 23. M. von Prittwitz also used this definition in his *Grenzen der Civilisation*, p. 301 (2d ed., 1853), quoted by Förstemann, p. 24. Finally, J. B. Say and others have spoken of direct taxes as demands of definite portions of an individual's revenue, *etc.*; see Say, *Treatise on Political Economy*, II, 268 (1st Amer. ed.).

<sup>2</sup> *Sulla economia sociale* (Florence, 1856), quoted by Ricca-Salerno, p. 541.

taxes he has grouped as direct all taxes upon trades, occupations, persons and all forms of property except common articles of consumption, while he includes all imposts on transactions with the indirect taxes.<sup>1</sup> This classification seems to follow closely the usage that has been most common in the United States, and makes it possible to contrast the familiar points of difference in the effects of various forms of taxation; but it cannot be considered a rigorous, scientific definition.

#### IV.

The difficulties and uncertainties of all attempted classifications have induced many economists to abandon altogether such a distinction. J. C. L. Simonde, as early as 1819, declared that the terms had no meaning outside of the Physiocratic doctrines.<sup>2</sup> A few years later Lieber, who offered a definition of direct and indirect taxes, admitted that the division was not a consistent one.<sup>3</sup> In 1862 Cherbuliez complained of the different meanings given to the words, and made no use of such a distinction.<sup>4</sup> Dudley Baxter then urged that the definition cannot furnish a trustworthy classification.<sup>5</sup> Henry Sidgwick abandoned the terms, considering that they were "liable to mislead the student, by ignoring the complexity and difficulty of the problem of determining the incidence of taxation."<sup>6</sup> W. Vocke adopted a similar course, because such a twofold division of taxes cannot be adjusted to his threefold grouping of public imposts.<sup>7</sup> Cohn says that, since the time of the Physiocrats, all writers have departed from this simple scheme of classification in proportion as they have acquired a greater knowledge of the facts of taxation.<sup>8</sup> Block concedes that the

<sup>1</sup> *Taxation in American States and Cities*, pp. 66-69.

<sup>2</sup> *Principes d'économie politique*, II, 479 (2d ed., Paris, 1827).

<sup>3</sup> *Encyclopædia Americana*, XII, 155.

<sup>4</sup> *Précis de la science économique*, II, 405 (Paris, 1862).

<sup>5</sup> *Taxation of the United Kingdom*, p. 21 (London, 1869).

<sup>6</sup> *Principles of Political Economy*, p. 567 (London, 1883).

<sup>7</sup> *Die Abgaben, die Auflagen, und die Steuer*, p. 7 (Stuttgart, 1887).

<sup>8</sup> *Finanzwissenschaft*, §§ 326-332.

distinction has merely an administrative importance, while Cauwès holds that it is not precise enough to serve as a basis for a logical classification.<sup>1</sup> Most recently Eheberg has said that it would be best to abandon entirely this distinction.<sup>2</sup>

It has been shown that all attempts to distinguish direct from indirect taxes offer more or less serious difficulties and fail to attain that exactness and completeness which are necessary for purposes of strictly scientific definition. Some of the distinctions are not tenable for a moment ; others promise well, but lead us into trouble sooner or later. Of all the definitions only those of the first group are based upon criteria that have sufficient economic importance to lead to useful scientific results. But the distinction here suggested cannot be applied with entire precision and consistency.

In view of such facts it would seem best for economists to abandon the terms direct and indirect taxes. But such a course is not free from difficulty. The words have been so long fixed in popular usage, and have been given such importance in administrative, and even constitutional, law, that it is doubtful whether the near future will see such a radical change effected in our terminology. Under such circumstances the economist may be obliged to retain these troublesome terms. If so, he should never fail to emphasize the difficulties and uncertainties of the definition. If such a compromise with popular and legal usage compels the retention of the distinction, it seems best to follow the definition based upon the usual and normal facts of incidence, as Wagner and Bastable have counseled. This definition offers convenient terms for describing large groups of taxes, and need not lead to error, if care is taken to consider individual cases. For American and English writers such a course offers a manifest advantage, in that it follows closely the usage that has prevailed since the early years of the present century.

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<sup>1</sup> *Progrès de la science économique*, II, 415; *Cours d'économie politique*, IV, 346.

<sup>2</sup> *Finanzwissenschaft*, p. 153 (4th ed., Leipzig, 1895).